

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

9 February 1982

National Intelligence Council

MEMORANDUM FOR: Dr. Norman A. Bailey
National Security Council

FROM: Maurice C. Ernst

SUBJECT: Press Perceptions of Soviet Bloc Financial Position

Attached is the package you requested on the West's perceptions of the Soviet financial position as reflected in the general press.

Maurice C. Ernst

Attachment,
As stated

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Press Perceptions of the Soviet Financial Position

A survey of the open literature since early 1980 to present we believe presents a fairly accurate view of the unfolding payments dilemma facing the USSR and the East European countries. In only one in notable instance (a 6 February article in the Economist) does the view vary widely from our bottom line judgment.

Since the beginning of 1980, the general perception of the Soviet financial position--and overall Bloc creditworthiness--has changed significantly. Rising world oil prices during the late 1970s had boosted Moscow's hard currency earnings to record levels by the end of the decade and 1980 began with expectations of even greater earnings. As a result, the Soviet payments position was viewed as robust. These perceptions were reflected in Western attitudes toward general Bloc creditworthiness. The general belief was that the Soviets could and would come to the aid of any of its allies.

The beginnings of political unrest in Poland served as a turning point in the general Western perceptions. Publications more and more frequently printed articles on Soviet Bloc creditworthiness. By early 1981 reporters were seriously questioning the belief that the Soviet Union would automatically act to bail out one of its satillites from financial problems. By summer--when it was clear that Moscow was not attempting to

prevent a Polish default--this belief was all but dead. Instead, press reports began to appear about the cost to the Soviets of supporting its empire. This issue was explored in detail in feature articles in both Fortune magazine and the Los Angeles Times.

Even so, the net assessment of Moscow's payments position remained fairly bullish through the summer. In the fall of 1981, with publication of Soviet mid-year trade statistics and the Bank of International Settlements data on Soviet assets and liabilities to Western lenders, this perception began to crumble as far as the USSR's short run position goes. Since then the press has reported on:

- o Soviet attempts to delay imports and defer payments,
- o increased Soviet gold sales,
- o other indications that the Soviets are in a hard currency pinch.

Attitudes on Soviet long-term financial strength have however remained unchanged. The belief in the abundance of Soviet reserves of oil, gas, and other raw material resources has led Western analysts to rate Soviet long-term prospects as good.

The attached articles (listed in the Appendix) are representative of the trends in Western press reporting on the USSR's balance of payments position and Soviet Bloc creditworthiness in general. Of particular interest, and as a fair accounting of reporting, are the International Investor articles published in January 1982. In contrast to the better articles is the 6 February piece in the Economist.

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Appendix

Selected Press Items on Bloc Payments Position.

Press statements on Soviet Trade and Payments 1980-81.

"The New Skittishness of East Bloc Loans", Business Week, Sep. 15 1980.

"Lending to Communist Nations", Time, Dec. 1 1980.

"Polish Debt: A Game of Chicken", Business Week, Feb 16, 1981

"Once Burned. . .Western Banks Now Demur on Soviet-Bloc Loans", Wall Street Journal, May 19, 1981.

Polish Debt Enmeshes the West", The New York Times, May 21, 1981.

"Soviet Imperialism is in the Red", Fortune, July 13, 1981.

"Soviets Pay High Price to Run an Empire", Los Angeles Times, Aug 30, 1981.

"Eyeing Warsaw, West Gets Cautious on East Bloc Loans", The New York Times, Sep. 27 1981.

"Soviet Bloc Owes West \$73 bn", Financial Times, Oct 12, 1981.

"Projected EE Debt to Double by 1985", Business Eastern Europe, Oct. 23, 1981.

"Why Russia is Selling gold in a Soft Market", Business Week, November 9, 1981.

"Banks and US Officials Hopeful on Polish Debt", The New York Times, Dec 15, 1981.

"Who's Worried About Eastern European Debt?", International Investor, Jan 1982.

"Why Poland Went Bankrupt" Wall Street Journal, date unknown.

"Soviet Said to Seek Payment Delay" The New York Times, February 1, 1982.

"Now Russian Asks for Time to Pay", The Economist, Feb 6 1982.

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